

Mr. Craig G. DeKany, CPA
Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: AC# 3-MAN-J8 – Manor Care of Lexington, Inc. d/b/a Manor Care
Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Mr. Craig G. DeKany, CPA
Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

Re: Draft Report - AC# 3-MAN-J8 – Manor Care of Lexington, Inc. d/b/a Manor Care
Rehabilitation and Nursing Center

Dear Mr. DeKany:

The accompanying draft report has been prepared by our office. Please review the adjustments as presented.

If you have any questions concerning this report and would like a formal exit conference with the auditors, please write to Mr. Jay S. Von Kannel, CPA, regarding the establishment of a meeting date. Your correspondence should include the above referenced control number. Your request for a conference must be made within ten (10) calendar days of your receipt of this report, and the conference must be held within twenty (20) calendar days of your receipt of this report. Any additional documentation in support of allowable cost must be received by our office no later than twenty (20) calendar days after your receipt of this report.

If we do not hear from you within ten (10) calendar days of your receipt of this report, we will assume you do not want an exit conference. In this case, I will reissue this report to you in final form and you will have thirty (30) calendar days in which to file a formal appeal if you so desire.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

Ms. Brenda L. Hyleman, Director
Division of Home Health and Nursing Home Services
Department of Health and Human Services
Post Office Box 8206
Columbia, South Carolina 29202-8206

Re: Draft Report - AC# 3-MAN-J8 – Manor Care of Lexington, Inc. d/b/a Manor Care
Rehabilitation and Nursing Center

Dear Ms. Hyleman:

Please review the adjustments contained in the accompanying draft report. If you have any comments or disagreements with the adjustments and resulting computations, please contact Mr. Jay S. Von Kannel, CPA, within ten (10) calendar days.

Use of the above referenced control number is requested on any subsequent correspondence pertaining to this report.

If you do not have any comments, it will be assumed you are in agreement with the report and only those concerns of the Provider, if any, will be considered prior to the issuance of the final report.

Yours very truly,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Mr. Jeff Saxon
Mr. Robert M. Kerr

**MANOR CARE OF LEXINGTON, INC.
D/B/A MANOR CARE
REHABILITATION AND NURSING CENTER**

WEST COLUMBIA, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MAN-J8**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 14, 2000

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. d/b/a Manor Care Rehabilitation and Nursing Center, dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
July 14, 2000

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MANOR CARE REHABILITATION AND NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-MAN-J8

Interim reimbursement rate (1)	\$94.87
Adjusted reimbursement rate	<u>89.23</u>
Decrease in reimbursement rate	\$ <u>5.64</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 3, 1999

MANOR CARE REHABILITATION AND NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period Beginning October 1, 1999
AC# 3-MAN-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$40.89	\$43.78	
Dietary		7.85	9.69	
Laundry/Housekeeping/Maintenance		<u>6.72</u>	<u>8.24</u>	
Subtotal	<u>\$4.32</u>	55.46	61.71	\$55.46
Administration & Med. Records	<u>\$ -</u>	<u>14.79</u>	<u>11.56</u>	<u>11.56</u>
Subtotal		70.25	<u>\$73.27</u>	67.02
<u>Costs Not Subject to Standards:</u>				
Utilities		2.34		2.34
Special Services		1.31		1.31
Medical Supplies & Oxygen		2.35		2.35
Taxes and Insurance		1.23		1.23
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$77.48</u>		74.25
Inflation Factor (3.00%)				2.23
Cost of Capital				9.34
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				4.32
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.57)
CNA Add-On				.75
Nurse Aide Staffing Add-On				<u>.91</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$89.23</u>

MANOR CARE REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MAN-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,975,284	\$ -	\$ 21,713 (2) 12,121 (8) 28,622 (9) 1,680 (9)	\$1,911,148
Dietary	371,943	-	2,213 (7) 2,868 (9)	366,862
Laundry	34,943	-	-	34,943
Housekeeping	194,379	-	3,091 (7)	191,288
Maintenance	118,782	-	30,490 (3) 24 (7) 588 (9)	87,680
Administration & Medical Records	678,181	5,039 (4) 11,899 (10)	3,331 (9) 577 (9) 15 (11)	691,196
Utilities	111,528	-	152 (7) 1,910 (10)	109,466
Special Services	61,148	6,017 (11)	6,016 (9)	61,149
Medical Supplies & Oxygen	222,601	-	5,039 (4) 50,253 (5) 53,592 (6) 3,479 (7) 342 (9) 259 (11)	109,637
Taxes and Insurance	57,570	-	-	57,570
Legal Fees	-	-	-	-
Cost of Capital	474,828	19,933 (13)	10,208 (1) 11,899 (10) 36,173 (12)	436,481
Subtotal	4,301,187	42,888	286,655	4,057,420
Ancillary	118,745	-	-	118,745

MANOR CARE REHABILITATION AND NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MAN-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as Adjusted by DH&HS	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
Non-Allowable	686,396	10,208 (1)	5,743 (11)	919,294
		21,713 (2)	19,933 (13)	
		30,490 (3)		
		50,253 (5)		
		53,592 (6)		
		12,121 (8)		
		44,024 (9)		
		<u>36,173 (12)</u>		
Total Operating Expenses	<u>\$5,106,328</u>	<u>\$301,462</u>	<u>\$312,331</u>	<u>\$5,095,459</u>
Total Patient Days	<u>46,735</u>	<u>-</u>	<u>-</u>	<u>46,735</u>
Total Beds	<u>132</u>			

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report

Cost Report Period Ended September 30, 1998

AC# 3-MAN-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 704,456	
	Nonallowable	10,208	
	Accumulated Depreciation		\$ 686,398
	Other Equity		18,058
	Cost of Capital		10,208
	To adjust fixed assets and related depreciation expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	21,713	
	Nursing		21,713
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
3	Nonallowable	30,490	
	Maintenance		30,490
	To remove cost not related to patient care and disallow expense due to lack of documentation HIM-15-1, Sections 2106.1 and 2304		
4	Medical Records	5,039	
	Medical Supplies		5,039
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		
5	Nonallowable	50,253	
	Medical Supplies		50,253
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		

MANOR CARE REHABILITATION AND NURSING CENTER

Adjustment Report

Cost Report Period Ended September 30, 1998

AC# 3-MAN-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable Medical Supplies	53,592	53,592
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
7	Retained Earnings	8,959	
	Dietary		2,213
	Housekeeping		3,091
	Maintenance		24
	Utilities		152
	Medical Supplies		3,479
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
8	Nonallowable Nursing	12,121	12,121
	To remove cost not related to patient care HIM-15-1, Section 2102.3		
9	Nonallowable	44,024	
	Nursing		28,622
	Restorative		1,680
	Dietary		2,868
	Maintenance		588
	Administration		3,331
	Medical Records		577
	Medical Supplies		342
	Special Services		6,016
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MANOR CARE REHABILITATION AND NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MAN-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Other Income	1,910	
	Administration	11,899	
	Utilities		1,910
	Cost of Capital		11,899
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2328 State Plan, Attachment 4.19D		
11	Special Services	6,017	
	Medical Records		15
	Medical Supplies		259
	Nonallowable		5,743
	To adjust special (ancillary) services State Plan, Attachment 4.19D		
12	Nonallowable	36,173	
	Cost of Capital		36,173
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
13	Cost of Capital	19,933	
	Nonallowable		19,933
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$1,016,787</u>	<u>\$1,016,787</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MANOR CARE REHABILITATION AND NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MAN-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>120</u>	<u>12</u>	
Deemed Asset Value	4,215,600	421,560	
Improvements Since 1981	1,751,817	3,098	
Accumulated Depreciation at 9/30/98	<u>(1,827,480)</u>	<u>(26,482)</u>	
Deemed Depreciated Value	4,139,937	398,176	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	260,816	25,085	
Return Applicable To Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	260,816	25,085	
Depreciation Expense	138,504	17,158	
Amortization Expense	6,817	-	
Capital Related Income Offsets	(10,817)	(1,082)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	395,320	41,161	\$436,481
Total Patient Days (Minimum 97% Occupancy)	<u>42,486</u>	<u>4,249</u>	<u>46,735</u>
Cost of Capital Per Diem	\$ <u><u>9.30</u></u>	\$ <u><u>9.69</u></u>	\$ <u><u>9.34</u></u>

MANOR CARE REHABILITATION AND NURSING CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended September 30, 1998
 AC# 3-MAN-J8

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 6.93	N/A
Adjustment for Maximum Increase	\$ <u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>10.92</u>	\$ <u>9.69</u>
Reimbursable Cost of Capital Per Diem		\$9.34
Cost of Capital Per Diem		<u>9.34</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>